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STATEMENT

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI)

H.B. No. 5930 – AN ACT CONCERNING AUTOMOBILE INSURANCE PREMIUM RATES

COMMITTEE ON INSURANCE AND REAL ESTATE

February 14, 2013

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on H.B. 5930. Our comments are provided on behalf of the member companies of PCI, a national property casualty trade association with over 1,000 member companies. PCI member companies provide 49 percent of Connecticut's personal lines insurance coverage.

Connecticut Bill 5930 would require the reduction of premium rates for private passenger motor vehicle insurance policies for individuals garaging their motor vehicles in urban areas. Under the so-called "75-25" rule which currently exists in Connecticut, 75 percent of rates for any territory are based on the territory's claim experience and 25 percent are based on the statewide average claim experience. The current 75-25 rule shifts costs so that drivers residing in higher-risk areas pay lower prices than what their true levels of risk reflect and lower-risk drivers have had to pay inflated and unfair rates to subsidize those living in higher-risk areas. Presumably, this bill would call for the elimination or further reduction of territorial rating so as to reduce premiums for drivers garaging their vehicles in urban areas.

Data clearly shows that greater losses are incurred in urban areas. There are a number of reasons for this including, among others, higher traffic density in urban areas, higher number of injury claims and associated medical costs in urban areas and higher fraud and auto body repair costs in urban areas. It is only fair that premiums for such policyholders should reflect such increased costs. The use of rating by geographical area or territory is a proven predictor of risk and an equitable and statistically supported method of distributing costs among policyholders. No other state has eliminated the use of geographical location as a rating factor. In fact, most states allow the use of territory with no restrictions whatsoever.

If territorial rating were eliminated or further restricted, an even greater inequitable redistribution of premium than we have at present would result with forced subsidies for some policyholders at the expense of others. In fact, it is estimated that if territorial rating were eliminated, premiums would be reduced for certain urban policyholders by up to 14%, but premiums would increase by about 9% for two-thirds of the state's lower risk drivers. PCI would submit that increasing premiums for two-thirds of the state's drivers in order to subsidize the premiums of certain urban drivers is not an equitable or desirable result.

Attached hereto is an analysis of the impact of further restrictions on territorial rating which provides additional information relative to the increased risks/costs associated with urban areas and the premium impact of eliminating territorial rating.

For the foregoing reasons, PCI urges your Committee NOT to advance this bill.



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CONNECTICUT PROPOSED BILL 5930 MEANS HIGHER PREMIUM RATES FOR MOST DRIVERS

Introduction

Connecticut Bill 5930 proposes to amend the general statutes to reduce the premium rates for private passenger motor vehicle insurance policies for individuals garaging their motor vehicles in urban areas. Economic principles state that if rates are reduced for one group, another group will have its rates increased to make up for the shortfall. Although specific details of this legislative proposal have not yet been developed, the majority of drivers in the state would likely pay more so that certain urban drivers would pay less.

No one can dispute the fact that automobile accidents and vehicle thefts are more likely to occur in certain locations than in others, and the cost of injuries and property damage is more likely to be greater in certain areas as well. Insurance companies must be able to distinguish geographical areas (also known as territories) with greater loss potential from those with less and be allowed to use this information in their underwriting and ratemaking process. In this way, equity among policyholders is achieved, as each group pays its fair share of losses and expenses.

Insured loss results show that policyholders living in different areas of Connecticut are not only more likely to incur a claim, but their claims are more expensive as well. The auto loss cost (loss per insured car) is generally highest in the city – this is attributable to: (1) the greatest number of claims reported by urban residents; (2) the highest amount of loss dollars per claim in urban areas; or (3) a combination of both. In general, some factors affecting the costs for auto insurance are:

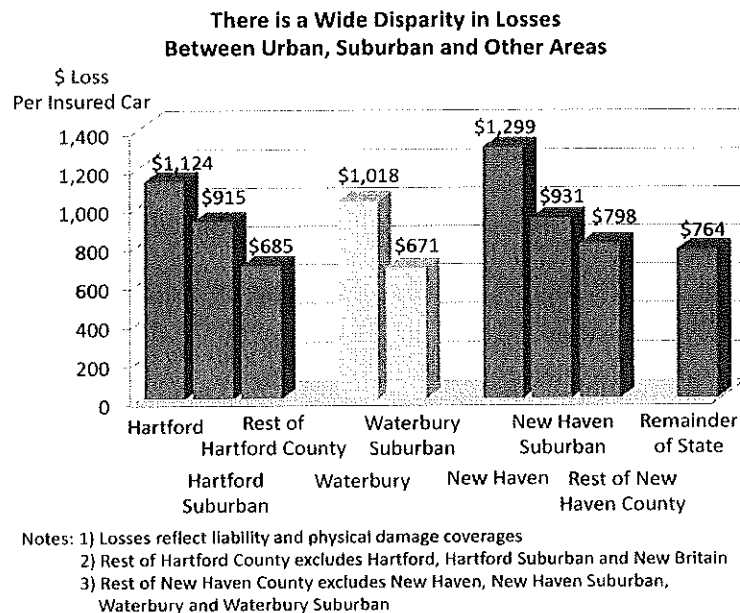
- the likelihood of being in an auto accident;
- the number of injury claims reported whenever there is vehicle damage from a crash;
- average hospital room rates and physicians' service charges;
- body shop repair costs;
- motor vehicle theft rates;
- uninsured motorist populations; and
- attorney involvement to help individuals settle their claims.

Because of higher losses incurred by drivers in urban areas, they are viewed as higher insurance risks. For specific underlying data on the above variables for Connecticut, see Appendix I.

Insured Losses are Higher in Urban Areas

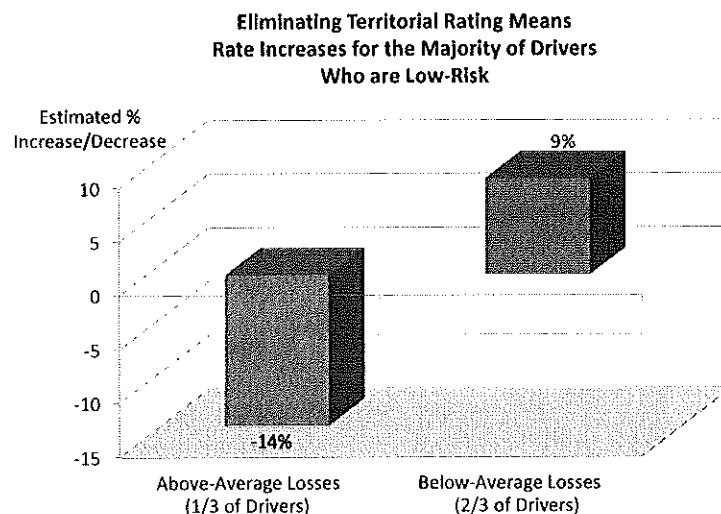
Higher insured costs are illustrated below for several urban locations in Connecticut (for which data are available).¹ In each case, the cities (Hartford, Waterbury and New Haven) have a higher liability and physical damage loss cost than their respective suburbs and/or nearby rural parts.

¹ Independent Statistical Service (a subsidiary of PCI), *Auto Compilation for Connecticut*



Premium Reductions for Urban Residents Means Premium Increases for Other Residents

Disregarding the geographical location in the rating process typically results in an inequitable redistribution of prices, whereby the majority of insured drivers would have to pay more to maintain the same overall premium volume collected by insurers. If Bill 5930 had no longer allowed the use of territorial rating and had already passed, then about one-third of the state's insured drivers – i.e., those living in the cities of Hartford, Waterbury, New Haven and other areas with above-average losses – would have received an average premium reduction of about 14 percent. In contrast, two-thirds of the state's insured drivers – whose losses are below average and are the better risks – would have seen their rates increase by 9 percent. These percentages are based on losses reflecting the state's current "75/25" rating system.²



Note: Rates reflect liability and physical damage coverages. Results are based on losses reflecting the 75/25 rule in Connecticut.

² Under the "75/25" rule in Connecticut, rates for any territory are based on 75 percent of its own claim experience and the remaining 25 percent reflects the statewide average claim experience.

Consumer Survey Results

Even consumers recognize the inequity of forcing suburban and/or rural policyholders to subsidize their counterparts living in the city. In various public attitude surveys conducted by the Insurance Research Council, the majority of respondents generally favor lower automobile insurance rates for drivers who live in suburban and rural areas because they have fewer accidents than drivers who live in cities. They agree that it is unfair for lower-risk drivers to pay higher auto insurance rates to compensate for decreases given to higher-risk drivers.

Conclusion

The use of territory in insurance ratemaking is a proven predictor of risk, as loss experience varies broadly among different geographical areas. Restrictions to territorial rating typically mean an increase in premiums for some to offset the decrease in premiums given to others, therefore unfairly overcharging those drivers with less exposure to risk. This imposition usually affects the majority of the state's policyholders living in the non-urban areas, in contrast to their city counterparts who would have premium decreases.

In conclusion, insurance companies need to base their premiums on projected costs and differentiate among areas with varying loss potential. Restrictions placed on territorial rating would: (1) create forced subsidies for some policyholders at the expense of others and limited insurance products or services; (2) undermine the ability to influence responsible behavior on the part of individuals; and (3) cause a shift in the marketplace by companies, potentially reducing competition and restricting products and services for consumers.

*The **Property Casualty Insurers Association of America (PCI)** is a trade association consisting of more than 1,000 insurers of all sizes and types. PCI members represent 39.6 percent of the total general insurance business and 41.6 percent of the total personal lines business in the nation. In Connecticut, PCI members represent 49.8 percent of the personal lines market.*

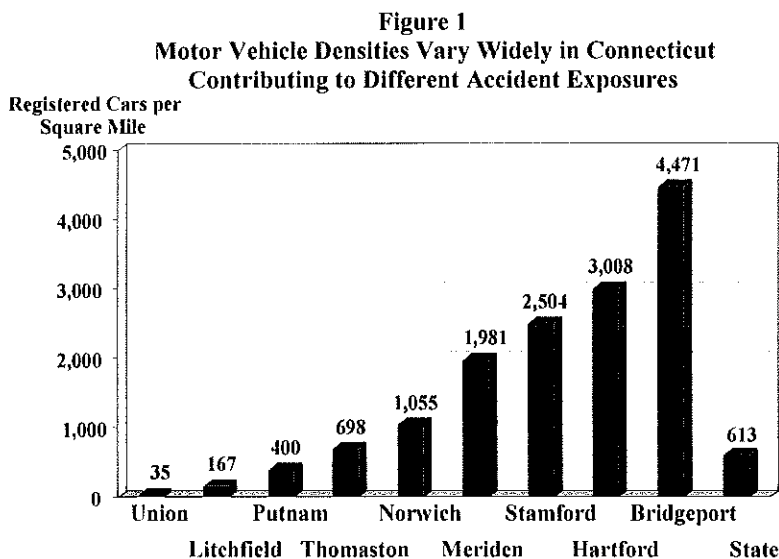
APPENDIX I

Underlying Losses Affect Varying Auto Insurance Prices in Connecticut

This appendix presents different factors affecting the disparity in insurance losses in Connecticut and, hence, the need for territorial rating. These variables help explain why certain drivers in the state pay more for auto insurance than drivers in other parts of the state.

Varying Levels of Traffic Concentration

Higher traffic density in an area, especially an urbanized one, means greater exposure to other cars and, therefore, a stronger possibility of being in an auto accident. The motor vehicle density (the number of registered vehicles per square mile) clearly has an impact on the number of auto accidents and, hence, insurance claims. Based on data from the Connecticut DMV and Economic & Community Development, there are 613 registered cars per square mile throughout the state. This measurement ranges from 35 cars per square mile in Union (Tolland County) to 4,471 cars per square mile in Bridgeport (Fairfield County). In other words, those driving in Bridgeport are over 100 times more likely to see another car on the road, and possibly be involved in a collision, than in Union. Figure 1 depicts the wide span of motor vehicle densities for different towns and cities in Connecticut.



Sources: CT Depts. of Motor Vehicles and Economic & Community Development

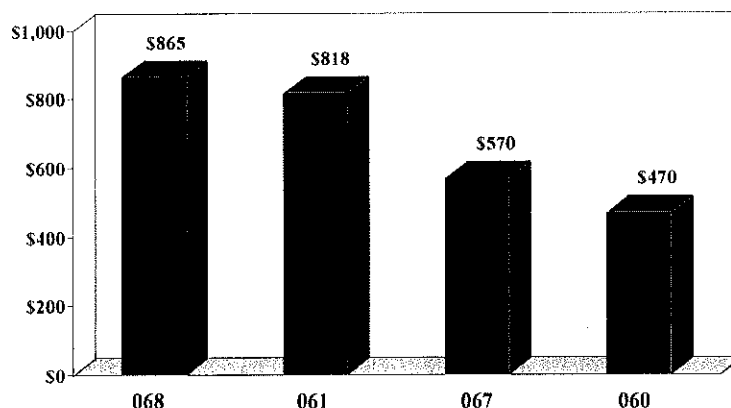
Variable Health Care Costs

Health care costs are a major contributor to auto insurance losses and, hence, premiums. As the cost of this item continues to go up, so does the increase in the insurance premium. Figure 2 illustrates a comparison of average hospital room rates, compiled by the Mutual of Omaha Insurance Company, for different zip code areas (first-3 digits) in Connecticut.³ There is clearly a wide disparity in these health care costs, ranging from a low of \$470 in the zip code area beginning with "060" to \$865 in the zip code area beginning with "068." On average, hospital room rates in Avon, Bakersfield, East Glastonbury, East Canaan, Granby, Farmington, Poquonock, Scitico, Suffield, Taconic, etc. are 84 percent higher than comparable rates in Belle Haven, Bethel,

³ Mutual of Omaha Insurance Company, *Current Trends In Health Care and Dental Costs Utilization*, 2004 Edition. Data (2001-2003) for only four zip-code areas in Connecticut were compiled.

Brookfield, Georgetown, Norwalk, Rowayton, Westport, etc. The cost for an overnight stay in a hospital room in Hartford is at the higher end of this range (\$818), while the cost in Goshen, Litchfield, Morris, Northfield, Oakville, Pequabuck, Thomaston, Warren, Waterbury, etc. is at the lower end (\$570).

Figure 2
Average Hospital Room Rates
For Various Zip Codes
2001-2003 Combined



Source: Mutual of Omaha Ins. Co.

Mutual of Omaha also collected limited data comparing physicians' office service charges between Bridgeport and the statewide average for the three-year period 2001–2003. These charges included items related to doctors' visits, such as radiology, lab work, supplies and equipment. Bridgeport's average charge for this item is \$70, compared to \$51 statewide. In other words, it costs 37 percent more than average to pay for service charges in this particular city.

Differences in Body Shop Repair Costs and Rates

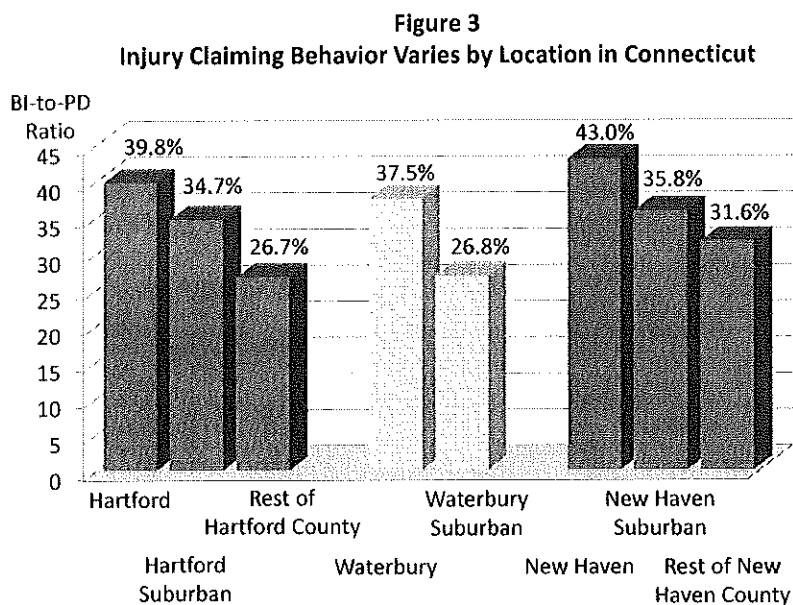
Shown in Table 1 is the difference in various body shop repair-related costs between Hartford and Bridgeport compiled by Collision Repair Industry. The cost of metal and finish is higher by about 11 percent in Bridgeport than in Hartford; the labor cost to repair frame components or to replace them is higher by about this amount, too. In contrast, body shops' average material allowance (i.e., the amount, usually per labor hour, allowed from the insurer responsible for the repair) is slightly higher in Hartford than in Bridgeport. Higher body shop repair costs impact insured physical damage losses and hence, rates.

Table 1						
Body Shop Repair Rates						
	Metal/Finish (Low)	Metal/Finish (High)	Frame Labor (Low)	Frame Labor (High)	Material Allowance (Low)	Material Allowance (High)
Hartford	\$45	\$52	\$45	\$58	\$19	\$22
Bridgeport	\$50	\$58	\$50	\$65	\$18	\$18
Source: Collision Repair Industry INSIGHT (2003)						

Claiming Behavior Varies by Location in Connecticut

The likelihood of an injury claim being made, if an auto accident resulting in vehicle damage occurs, is another factor contributing to insurance losses and insurance rate levels. One measurement of claiming patterns demonstrated by policyholders is the percentage of bodily injury (BI) liability claims for every 100 property damage (PD) liability claims, i.e., a BI-to-PD ratio. The latest available loss experience shows that, on average in Connecticut, about 30 percent of claims with vehicle damage have associated injury claims.

Figure 3 presents the BI-to-PD ratios for the cities of Hartford, Waterbury and New Haven compared to their suburbs and nearby rural parts. At nearly 40 BI claims per 100 PD claims (39.8 percent), Hartford residents file more injury claims per accident than their counterparts in the suburbs and rest of Hartford County. Similar patterns occur for Waterbury and New Haven residents. The greater likelihood of filing injury claims leads to higher insurance loss costs and because the overall loss costs in certain locations are higher, insurance rates in these locations should accordingly be higher.



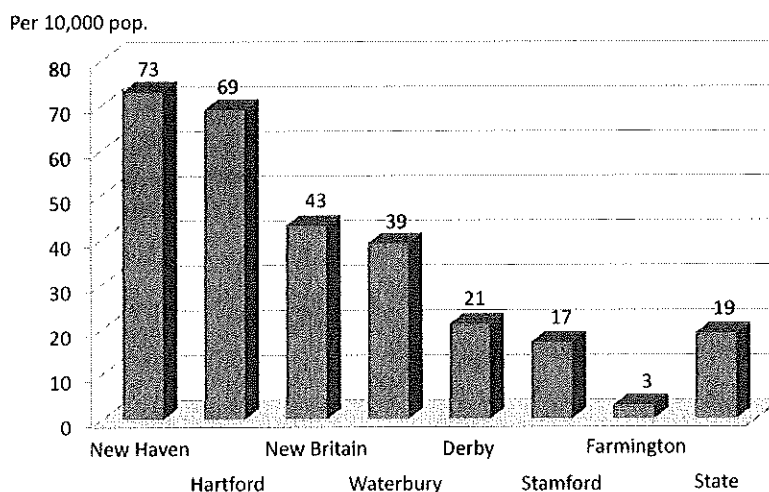
Source: PCI

Variations in Motor Vehicle Theft Rates

According to the FBI, the 2012 motor vehicle theft rate for the state of Connecticut is about 31 thefts per 10,000 population. With theft rates of 73 and 69 cars in New Haven and Hartford, respectively, people living in these cities are more than twice as likely to have their autos stolen than in the state as a whole.⁴ Other towns' theft rates span from 3 cars per 10,000 population in Farmington to 43 cars per 10,000 population in New Britain. The disparity in the number of cars stolen throughout the state undoubtedly contributes to the wide difference in comprehensive coverage losses. See Figure 4 for a sample of motor vehicle theft rates throughout Connecticut.

⁴ Federal Bureau of Investigation, *Crime in the U.S., 2012 Edition*

Figure 4
Motor Vehicle Theft Rates in Connecticut - 2011



Source: FBI

Variations in Uninsured Motorist Population

Motorists with insurance usually pay an added premium to protect themselves from the group of drivers who have no liability coverage. The amount of their uninsured motorist (U.M.) coverage rate is influenced by the size of this group. The estimated U.M. driver population in the entire state is about 10 percent, with city and town U.M. populations ranging from 1.4 percent in Westport to 24 percent in New Haven⁵ (see Table 2). Clearly, there are vast differences in the U.M. population throughout different parts of Connecticut, making insured motorists in some locations exposed to a higher portion of uninsured drivers than in others; hence, their U.M. rates are higher, contributing to a higher overall premium.

Table 2
Estimated Uninsured Motorist Populations by Geographical Location

Location	U.M. Pop.	Location	U.M. Pop.	Location	U.M. Pop.
New Haven	24.1%	Waterbury	10.5%	Waterbury Sub.	7.3%
Hartford	18.2%	Fairfield/Stratford	10.2%	Stamford	7.1%
Bridgeport	17.7%	Rem. New Haven County	8.7%	Rem. Fairfield County	6.5%
Hartford Sub.	12.4%	New London, Norwich, Torrington	7.8%	Remainder of State	5.7%
New Britain Sub.	12.2%	Norwalk	7.7%	Darien, Greenwich	5.0%
New Haven Sub.	11.3%	Rem. Hartford County	7.5%	Westport	1.4%

Source: PCI; the U.M. population statewide is about 10 percent

⁵ PCI; the estimated U.M. population is based on the ratio of the uninsured motorist claim frequency to the bodily injury liability claim frequency.

Differences in the Level of Attorney Involvement

Whether or not an individual hires an attorney is another important variable in the auto insurance claim process, as legal counsel can strongly influence the amounts of economic losses and payments, the types of treatment that claimants have, and the length of time for claims to settle. Attorneys tend to be utilized more often in urban areas than elsewhere, contributing to the disparity in injury insurance premiums among locations. As shown in Table 3, the countrywide rate of attorney involvement in central city locations is higher than involvement found in suburbs, medium cities, small towns and rural areas.⁶ Overall, there is a 19- to 20-percentage point difference in attorney usage by injury claimants in the central city versus small town and rural areas (53 percent vs. 33-34 percent).

Table 3 Percentage of Claimants with Attorney Representation By Accident Location (Countrywide)	
	Percent of Injury Claimants
Central City	53%
Suburb	49%
Medium City	41%
Small Town	33%
Rural	34%
Total	45%
<i>Source: PCI based on Insurance Research Council data</i>	

Fraud

Another significant factor affecting auto insurance losses, as well as other types of insurance, is the growing problem of consumer fraud, the level of which can vary significantly among cities and towns. Insurance companies continue to be plagued by fraudulent claims; they have been accelerating their assault on this problem, expanding and allocating significantly larger amounts of time, money, and resources toward fraud-fighting efforts. Millions of dollars are spent each year to investigate suspected insurance claims. Fraud has been said to be a \$100-billion-a-year business, costing Americans more than \$45 billion a year. This translates into additional dollars, possibly hundreds more, included in the insurance premium to pay for fraud.⁷

⁶ Insurance Research Council, *Injuries in Auto Accidents: An Analysis of Auto Insurance Claims*

⁷ Consumer Federation of America and National Insurance Crime Bureau